Office of the Auditor General

BUSINESS PLAN 2006-09

DESCRIPTION OF OFFICE

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. Under the *Auditor General Act*, the Auditor General is the auditor of all government ministries, departments, funds and Provincial agencies, including universities, public colleges and technical institutes. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed auditor of a Crown controlled corporation or another organization.

The mandate of the Auditor General is to examine and provide independent reporting on government's management of, and accountability practices for, the public resources entrusted to it. Both the Auditor General and his Office are independent of government. Therefore, our work is reported to the Legislative Assembly. Our annual report describes the results of auditing the consolidated financial statements of the Province and the financial statements of ministries, departments, funds and Provincial agencies. The report also includes significant recommendations made to the government for improving performance reporting and the use of public resources. In addition to the annual report, the Auditor General may produce special reports on certain audits.

Our statutory mandate to perform audits carries with it an expectation that our work will be relevant. We believe Albertans want our work to result in their improved safety and welfare, improved security and use of the province's resources, and improved governance and ethical behaviour. To meet the expectation of being relevant, we work hard to listen carefully to those who voice concerns, to update our knowledge of public sector program objectives, risks and controls, and to implement the goals of our business plan. By digging below the surface of apparent problems to get at the root causes of weak systems, we can ensure that the resources we are given are well spent.

MISSION

To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.

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SIGNIFICANT OPPORTUNITIES AND CHALLENGES

The environment in which we operate has a significant impact on the work that we do, and the way we plan and carry out our audits. Our ability to recognize and respond to changes in our external and internal environments is critical to our success. Also, sound risk management is essential for us to meet our goals. As part of our strategic planning process, we identify risks that could impact achievement of our goals and establish processes to manage those risks. Key forces and trends that shape our work are:

- **Responding to stakeholder expectations for audits**—As public expenditures increase, the Members of the Legislative Assembly and the public need to know that they can expect to see efficient use of resources resulting in sustainable improvements in services. Our clients, the Members of the Legislative Assembly, tell us that they need relevant and timely systems audits to assist them in ensuring the cost-effectiveness of government operations.
- **Keeping pace with the changes in our audit environment**—Professional accounting standards require firms and legislative audit offices such as our own to be able to clearly demonstrate that they have well established quality control policies and procedures. While we have always had quality control policies and procedures in place, our Office must be able to show that these are effective and meet the new professional standards by December 1, 2005. In addition, management of public companies are now required to report on the effectiveness of internal control over financial reporting and, for US registered companies, the auditor is required to audit the effectiveness of internal control over financial reporting. Canadian regulators may mandate auditor involvement in reporting on internal control over financial reporting for public companies. Requirements for CEO/CFO certifications in relation to financial statements and other financial information of public companies in the private sector will impact accounting and audit practices in the public sector. A number of the agencies we audit intend to comply voluntarily with the requirements therefore we must be ready to guide their boards and senior management, and assist with the introduction of these changes in the public sector.
- **Building and sustaining organizational capacity**— the nature of our work is changing and growing, resulting in increased responsibilities and expectations for our staff. We devote a significant amount of time to attract, grow and retain a full complement and appropriate mix of qualified and professional staff to carry out complex audits, producing high quality and relevant results. The increasing importance of systems audits requires auditors to be highly creative, strategic thinkers who understand complex government systems and their inherent strengths and weaknesses. Meeting our staffing needs has become increasingly difficult in the current market, where demand for skilled professionals has had a major impact on salaries. In our last employee survey, staff told us their work reflects their abilities and they get a sense of personal accomplishment from their work, but they want to be recognized and rewarded for good performance, and receive competitive pay and benefits reflecting their commitment and responsibilities.

STRATEGIC PRIORITIES 2006-09

Our strategic priorities focus on the key risks to successful achievement of our goals and the environmental, stakeholder and internal capacity issues identified in our significant opportunities and challenges section. They reflect the importance we place on making an uncompromising effort to do high quality audits that produce relevant and timely results. Our strategic priorities are the drivers of our key initiatives and link to our goals as shown below:

1. Optimizing resource allocations to achieve our goals Linkage: Goals 1 & 2	Ensuring the right mix of technical knowledge and expertise to provide high quality audits will continue to be a priority. Matching the allocation of our staff to audit risk is key to our cost-effectiveness. Being efficient in what we do enables us to meet demands for assurance work on the government's financial statements and performance measures. It also means that we can dedicate more resources to our systems audits and provide recommendations for improved cost-effectiveness. Recent examples include our work on the *Seniors Care and Programs, Public Private Partnerships* and the *Alberta Securities Commission Enforcement System* in the past year. We will focus our resources on making systems audit recommendations that result in improved: • safety and welfare of Albertans—such as management of the quality of water, and services targeted to seniors and children; • security and use of the province's resources—such as reforestation; • governance and ethical behaviour
2. Positioning our Office to respond to new governance and professional standards Linkage: Goals 1 & 2	Reviewing and improving our audit practices and our internal systems of quality control will continue to be a priority, as will continued compliance with professional accounting and auditing standards, especially regarding the new quality control standards for audit offices. We will place a priority on working with management, boards and audit committees of the entities we audit, to encourage improved governance practices. We must also be ready to guide the boards and senior management of the entities we audit when requirements for CEO/CFO certifications of financial statements and other financial information impact accounting and audit practices in the public sector. One imminent accounting change that will continue to impact our audit plans is the expansion of the government reporting entity to include, in the province's consolidated financial statements, organizations such as universities, public colleges, technical institutes, regional health authorities and school boards.
3. Enhancing our organizational capacity Linkage: Goals 1 & 2	Our capacity to respond to changes in our environment, as well as meet the expectations of our stakeholders and our business plan goals, is dependent upon our success in attracting, growing and retaining high quality employees. Over the last three years, we have increased our student recruiting considerably resulting in more and more CA exam writers (5 in 2003; 8 in 2004; 17 in 2005; expect 16 in 2006). Training and mentoring staff will continue to be a high priority for us, as will ensuring we have the right skills to produce timely, high quality and relevant products. In planning our work, we will optimize on-the-job learning experiences for all our employees. We will also continue to build on strategies for improving communication in the Office (raised in our 2004 staff survey.)

CORE BUSINESSES, GOALS, STRATEGIES AND MEASURES

Core business one: Assurance auditing

Assurance audits confirm that the performance reports of government organizations are credible. We provide opinions on whether the consolidated financial statements of the Province, and the financial statements of the ministries, departments, funds and Provincial agencies, are presented fairly in accordance with applicable standards. We also examine transactions for compliance with legislation. In addition, we examine the non-financial performance measures that government organizations include in their reports. For the year ending March 31, 2007, our assurance budget is $12.9 million.

GOAL ONE 1 **Independent audits that confirm the reliability and relevance of financial and non-financial performance reporting to the Legislative Assembly**

Strategies:

- Improve efficiency. We will continue to increase the cost-effectiveness of our assurance activities through reliance on internal controls and internal audit when both of these are assessed as effective, and also by aligning our supervisory, student and agent resources to audit risk. We will continue to meet our targets for completion of assurance audits within the timelines set in the performance measures below and within budgeted costs.
- Improve quality control. We will continue to focus on improving our quality control, both at the Office-wide level and for individual audit engagements, by implementing the new quality control standards for audit offices. Also, we will ensure our continued compliance with professional assurance standards recommended by the Canadian Institute of Chartered Accountants.
- Enhance assurance. We will evaluate options for enhancing assurance provided on performance reports, including *Measuring Up* and ministry performance measures.
- Promote good governance. Through coaching presentations and attendance at board and committee meetings, we will help Members of the Legislative Assembly, boards and oversight committees to optimize their review and use of performance reports.
- Facilitate compliance with professional standards. We will assist management of the organizations we audit to achieve compliance with the professional accounting standards, such as reporting entity and financial instruments recommendations, and to be prepared for future requirements, such as developing CEO/CFO financial statement certifications.

Performance measures		Last Actual 2004-05	Q2 Actual 2005-06	Target 2006-07	Target 2007-08	Target 2008-09
Issuance of reports						
1.a	Issue our auditor's report on the consolidated financial statements of the Province by June 30th each year. [1]	June 22 2004	June 20 2005	June 30 2006	June 30 2007	June 30 2008
1.b	Issue our specified auditing procedures report on the Government of Alberta's performance information contained in Measuring Up by June 30th each year. [1]	June 22 2004	June 20 2005	June 30 2006	June 30 2007	June 30 2008

Performance measures		Last Actual 2004-05	Q2 Actual 2005-06	Target 2006-07	Target 2007-08	Target 2008-09
1.c	The percentage of auditor's reports on financial statements for consolidated entities with March 31st year ends that we issue by July 15th each year.	61% [2]	96%	90%	90%	90%
1.d	The percentage of auditor's reports for non-consolidated entities that we issue within 120 days of the entity's year end.	71%	*71% (not including PSIs yet)*	80%	80%	80%
1.e	The percentage of specified auditing procedures reports on ministry performance information that we issue by September 15th each year.	91%	86%	100%	100%	100%
Budgets						
1.f	The percentage of assurance auditing projects over 200 hours completed within 10% of budgeted costs.	71%	*71% as at Sept 30, 2005*	90%	90%	90%
1.g	The percentage of costs dedicated to assurance auditing.	69%	*72% as at Sept 30, 2005*	Less than 70%	Less than 70%	Less than 70%

[1] Required by June 30th each year per s. 10 of the Government Accountability Act.

[2] 2004-05 result low due to late changes made to the salary and benefits note disclosure. By July 31, 2004, 99% met the target.

Core business two: Systems auditing

Our mandate requires us to ensure that we undertake the right work—systems audits that result in relevant, reliable and timely reports that help the Legislative Assembly to hold government accountable for its management of public resources. Our systems audits result in recommendations for improvements to the government's financial and non-financial systems. For the year ending March 31, 2007, our systems audit budget has been set at $6.2 million.

GOAL TWO 2 **Solutions to improve government systems, including organizations' systems for identifying and managing their business risks**

Strategies:

- Improve relevance. Continue to produce relevant recommendations and increase acceptance of them by continuing to expand our knowledge of government processes, to listen to the concerns of legislators and management of the entities we audit, to conduct audits in areas that will have the greatest impact on improving the accountability of government, and to clearly communicate our audit findings.
- Improve efficiency. We will manage our efforts to follow up progress on the implementation of accepted recommendations in an efficient manner, with consideration to when management expects to have completed significant stages of implementation. Also, we will continue to focus on improving the efficiency of our systems audits and to meet our targets for completion of systems audits within budgeted costs.
- Improve quality control. We will review our systems audit methodology and revise as necessary to ensure systems audits are properly executed and documented.

Performance measures		Last Actual 2004-05	Q2 Actual 2005-06	Target 2006-07	Target 2007-08	Target 2008-09
Recommendations						
2.a	The percentage of the Auditor General's primary recommendations accepted. [1]	87%	*Not yet available*	95%	95%	95%
2.b	The number of the Auditor General's primary recommendations not implemented within 3 years of acceptance.	21	20	None	None	None
2.c	Release the Auditor General's Annual Report in October each year.	October 4, 2004	October 3, 2005	October 2006	October 2007	October 2008
Budgets						
2.d	The percentage of systems auditing projects conducted within budgeted costs. [2]	81%	*73% as at Sept 30, 2005*	70%	70%	70%
2.e	The percentage of costs dedicated to systems auditing.	31%	*28% as at Sept 30, 2005*	30%	30%	30%

[1] Acceptance does not include recommendations accepted in principle or under review.

[2] Methodology changed to focus on all systems audits, whether completed or not during the year. 2004-05 actuals were restated from 61% to 81%.

Corporate Initiatives

We are building an organization equipped with the right people, processes and tools to achieve our goals and we provide work that allows every one of our employees to make a meaningful contribution to achieving the goal of an efficient and effective public sector. Three significant functions supporting the corporate initiatives include Human Resources, Information Technology and Corporate Services.

Strategies

- Human Resources. Our capacity to meet the goals included in this plan is dependent upon our success in attracting, growing and retaining high quality employees. Our Office offers an excellent opportunity for students wishing to obtain a professional accounting designation and pursue a career in the public sector. We will continue to recruit students and to focus on developing them through internal training courses and on-the-job experience, as well as by supporting them through their professional programs. We will continue to develop all of our staff as part of our succession management strategy, by providing experiences required to prepare for increasing responsibility. Our plan for succession is to provide the kind of experience that builds professional leaders and to support and encourage our senior management in their roles as coach and mentor. We will also continue to improve our system of formal performance management to increase the linkage between individual and team work and overall achievement of Office goals.
- Information Technology. Achieving our desired results is dependent upon effective and efficient information technology. We will continue to refine our information management processes. We will also maintain a secure information technology control environment, and look for better ways to use our tools both in our audit practice and administrative processes.
- Corporate Services. We will ensure the administrative and financial services functions of the Office support and assist the Auditor General and his staff in meeting the mission and legislative mandate of the Office. We will review and update our contract management policies and procedures, and ensure our processes reflect best practices. We will also review the internal reporting mechanisms to ensure management and staff receive the financial and non-financial information they need to manage their audits.

Performance measures	Last Actual 2004-05	Q2 Actual 2005-06	Target 2006-07	Target 2007-08	Target 2008-09
3.a The percentage of employees expressing satisfaction working for the Office. [1]	N/A	*Not yet available*	N/A	85%	N/A
3.b The percentage of staff meeting Office targets for available time spent on core business functions. [2]	90%	*93% as at Sept 30, 2005*	100%	100%	100%
3.c Corporate operating costs as a percentage of total Office costs.	18%	*17% as at Sept 30, 2005*	Less than 20%	Less than 20%	Less than 20%

[1] This biennial survey was last conducted in 2004 and the next survey will be done in March 2006.

[2] The methodology has been changed this year to annually limit each staff member to 125 hours for unassigned time and personal administration. The 2004-05 actual results have been restated from 100% to 90% as a result of this change.

BUDGET INFORMATION

Office of the Auditor General of Alberta
BUDGET BY OBJECT
(thousands of dollars)

	Comparable 2004-2005 Budget	Comparable 2004-2005 Actual	Comparable 2005-2006 Budget	Comparable 2005-2006 Forecast	**2006-2007 Estimates**	2007-2008 Target	2008-2009 Target
Personnel							
Salaries and wages	$ 8,890	$ 8,405	$ 9,200	$ 9,034	**$ 9,721**	$ 10,285	$ 10,799
Agent and other audit services fees	3,450	3,718	4,250	3,943	**4,050**	4,374	4,724
Employer contributions	1,358	1,221	1,440	1,417	**1,625**	1,707	1,792
Temporary audit services	1,104	1,025	815	1,329	**1,185**	1,000	1,000
Advisory services	415	177	366	257	**265**	295	266
	15,217	14,546	16,071	15,980	**16,846**	17,661	18,581
Supplies and services							
Professional fees, training, and development	672	612	770	711	**755**	771	787
Technology services	366	385	406	379	**435**	458	479
Travel	337	372	281	406	**395**	415	435
Amortization of capital assets	287	264	299	314	**265**	269	232
Materials and supplies	147	122	132	137	**135**	136	137
Rental of office equipment	50	73	65	95	**95**	96	97
Telephone and communications	76	72	71	70	**75**	78	82
Repairs and maintenance	12	14	11	14	**10**	11	11
Miscellaneous	32	28	33	33	**35**	37	39
	1,979	1,941	2,068	2,159	**2,200**	2,271	2,299
Total voted operating expenses	17,196	16,487	18,139	18,139	**19,046**	19,932	20,880
Less: Audit fee revenue	2,150	2,479	2,354	2,488	**2,185**	2,294	2,409
Net cost of operations	$ 15,046	$ 14,008	$ 15,785	$ 15,651	**$ 16,861**	$ 17,638	$ 18,471

EXPENSE BY CORE BUSINESS
(thousands of dollars)

Core Business							
Assurance auditing	$ 11,877	$ 11,369	$ 12,310	$ 12,310	**$ 12,876**	$ 13,952	$ 14,616
Systems auditing	5,319	5,118	5,829	5,829	**6,170**	5,980	6,264
TOTAL EXPENSE	$ 17,196	$ 16,487	$ 18,139	$ 18,139	**$ 19,046**	$ 19,932	$ 20,880
CAPITAL INVESTMENT	$ 450	$ 423	$ 165	$ 165	**$ 120**	$ 516	$ 95

Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
Year Ending March 31, 2007

	2005 Actuals			2006 Budget			2007 Estimates		
	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total
Work Performed by Sector:									
Aboriginal Affairs & Northern Development	$ 55,063	$ -	$ 55,063	$ 56,000	$ -	$ 56,000	$ 51,000	$ -	$ 51,000
Advanced Education	2,815,400	462,252	3,277,653	2,776,000	664,000	3,440,000	2,754,000	731,000	3,485,000
Agriculture Food & Rural Development	334,355	658,602	992,957	348,000	172,000	520,000	430,000	143,000	573,000
Children's Services	635,110	153,739	788,849	820,000	289,000	1,109,000	760,000	786,000	1,546,000
Community Development	325,097	15,780	340,877	271,000	15,000	286,000	249,000	-	249,000
Cross-Ministry	175,038	1,205,744	1,380,782	77,000	1,249,000	1,326,000	134,000	1,368,000	1,502,000
Economic Development	68,938	35,865	104,803	125,000	11,000	136,000	73,000	23,000	96,000
Education	163,076	50,481	213,557	204,000	335,000	539,000	375,000	199,000	574,000
Energy	302,335	117,236	419,572	383,000	100,000	483,000	413,000	252,000	665,000
Environment	89,076	33,413	122,489	73,0005	21,000	594,000	83,0001	50,000	233,000
Executive Council	53,290	2,860	56,151	54,000	15,000	69,000	57,000	69,000	126,000
Finance	1,938,553	227,568	2,166,121	2,152,000	271,000	2,423,000	2,203,000	272,000	2,475,000
Gaming	216,182	68,039	284,221	216,000	61,000	277,000	300,000	44,000	344,000
Government Services	126,643	35,695	162,338	109,000	375,000	484,000	121,000	119,000	240,000
Health & Wellness1,3	80,340	916,894	2,297,233	1,383,000	488,000	1,871,000	1,480,000	567,000	2,047,000
Human Resources and Employment	477,711	54,729	532,440	502,000	51,000	553,000	507,000	138,000	645,000
Infrastructure and Transportation	466,884	341,811	808,695	435,000	326,000	761,000	470,000	374,000	844,000
Innovation and Science	318,842	37,559	356,401	358,000	18,000	376,000	384,000	-	384,000
International and Intergovernmental Relations	36,993	1,171	38,164	51,000	1,000	52,000	55,000	-	55,000
Justice and Attorney General	205,893	41,817	247,709	204,000	29,000	233,000	212,000	15,000	227,000
Legislative Assembly	52,164	19,488	71,653	72,000	18,000	90,000	70,000	8,000	78,000
Municipal Affairs	262,685	78,640	341,325	344,000	82,000	426,000	257,000	34,000	291,000
Restructuring and Government Efficiency	355,320	94,033	449,352	469,000	104,000	573,000	523,000	111,000	634,000
Seniors	307,891	363,456	671,346	528,000	398,000	926,000	616,000	520,000	1,136,000
Solicitor General	57,777	30,500	88,276	93,000	35,000	128,000	99,0001	23,000	222,000
Sustainable Resource Development	148,589	70,933	219,523	207,000	201,000	408,000	200,000	124,000	324,000
	$ 11,369,244	$ 5,118,306	$ 16,487,550	$ 12,310,000	$ 5,829,000	$ 18,139,000	$ 12,876,000	$ 6,170,000	$ 19,046,000